Deloitte.

Deloitte Touche Tohmatsu Limited
2 New Street Square
London EC4A 3BZ

Tel: +44 (0) 20 7936 3000
Fax: +44 (0) 20 7583 1198
www.deloitte.com

Direct: +44 20 7007 0884
Direct Fax: +44 20 7007 0158
vepoole@deloitte.co.uk

Mde Françoise Flores, Chair
EFRAG
35 Square de Meeûs
B-1000 Brussels
Belgium

Email: commentletters@efrag.org

15 June 2012

Dear Mde. Flores

Discussion Paper: *Improving the Financial Reporting of Income Tax*

Deloitte Touche Tohmatsu Limited is pleased to respond to the European Financial Reporting Advisory Group's (EFRAG's) and the UK Accounting Standards Board's (ASB's) Discussion Paper *Improving the Financial Reporting of Income Tax* ('the discussion paper').

We welcome the project on income taxes undertaken by EFRAG together with the national standard-setters of the United Kingdom (ASB) and Germany (DSRC). We acknowledge that the primary purpose of the discussion paper is to stimulate a dialogue in respect of the complex area of accounting for income taxes under IFRSs and we support EFRAG in highlighting some of the important conceptual issues arising from, in particular, accounting for deferred tax balances. As noted in our recent comment letter on EFRAG's Discussion Paper *Accounting for Business Combinations under Common Control*, we believe that such an initiative could achieve more as part of a formal working relationship with the IFRS Foundation (IFRSF).

We agree with the observations made in Chapter 1 of the discussion paper that a focus on user needs should be at the core of any re-assessment of the financial reporting of income taxes and that one of those needs is additional clarity on current and likely future tax payments. There has been an increased focus in some jurisdictions in recent years on the amount of cash tax contributed to the public purse by corporate entities and we believe that this value (along with the likely level of cash payments in the future) is also likely to be the primary concern of an entity's investors in assessing its tax position. For this reason, we believe that transparency of that cash tax contribution should be a key objective of any re-assessment of income tax accounting.

We further suggest that this objective would best be served by application of a principle that tax assets and liabilities should only be recognised insofar as they are consistent with the normal criteria for recognition of assets and liabilities in the International Accounting Standards Board's (IASB's) *Conceptual Framework for Financial Reporting* ('the Framework'). We do not believe that the aim of transparency is best served by applying a different concept of assets and liabilities to, in particular, deferred tax assets and liabilities from that which is described in the Framework and applied elsewhere in IFRSs. To that end, we believe that any significant work on income tax accounting should be undertaken with the aim of re-considering the principles to be applied, not of making limited amendments to IAS 12.

We also agree with the observation made in the discussion paper that clarity over an entity's tax position could be enhanced by improved disclosures in this area. In our comment letter on the IASB's *Agenda Consultation 2011*, we identified the need for a Disclosure Framework to be both critical and urgent and stated our view that existing disclosure requirements could then be measured against such a framework to assess any need for them to be amended. We would consider this to be the appropriate process to follow in reassessing the disclosure requirements of IAS 12.

Another area highlighted in the discussion paper which we agree merits further attention is the issue of uncertain tax positions. The lack of guidance on this common issue currently represents a significant gap in IFRSs and we believe that the level of transparency over future cash tax payments could be enhanced by clarification of the measurement of and disclosures on uncertain tax positions.

Finally, we believe that the scope of 'tax accounting' should be considered further. Several governments have implemented taxes or levies on participants in particular industries, some of which meet the definition of an income tax in IAS 12 and some of which do not – resulting in differences in accounting due to the different principles for recognition of liabilities in IAS 12 and elsewhere in IFRSs. In our comment letter on the IASB's *Agenda Consultation 2011*, we suggested, given that a fundamental review of IAS 12 is not imminent, that the differences in accounting resulting from this distinction could be addressed by a limited scope amendment to IAS 12 such that the approaches to taxes whether income or otherwise would be consistent. To address this issue more comprehensively, we believe that any fundamental reassessment of tax accounting should also address the treatment of such regimes. This issue also highlights the need for a global perspective, which can best be achieved by a formalised relationship with the IFRSF, as such regimes have recently been implemented both within Europe (for example, the UK's bank levy) and elsewhere (for example, Australia's Mineral Resource Rent Tax).

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 207 007 0884.

Yours faithfully,

Veronica Poole
Global IFRS Leader
Technical